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Message Text

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16
ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 IO-13 NEA-10 PA-01 PRS-01 L-03

H-02 SP-02 USIA-06 AID-05 EB-07 NSC-05 CIEP-01 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 EUR-12 /117 W
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P 200420Z JUL 76
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 7658

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR ERB/ZINMAN

E.O. 11652: ADS, DECLAS 7/20/77
TAGS: EAID, EFIN
SUBJECT: ADB LENDING RATE

REF: MANILA 10326

1. ON 19 JULY 1976 AUSTRALIAN DIRECTOR CIRCULATED TO DIRECTORS HIS MEMORANDUM TO ADB PRESIDENT STATING HIS INTENTION TO PROPOSE DURING SCHEDULED BOARD DISCUSSION ON 29 JULY 1976 THAT BANK SHOULD ABOLISH PREMIUM ON INTEREST RATE ON LOANS TO SINGAPORE AND HONG KONG. MEMORANDUM POUCHED 20 JULY 1976.

2. MEMORANDUM LISTS HIS REASONS TO ABOLISH QUOTE PENALTY UNQUOTE ON LENDING RATE. BE BELIEVES THAT (A) IT IS DISCRIMINATORY, (B) IT DOES NOT REFLECT BANK AS INDEPENDENT INTER-GOVERNMENTAL INSTITUTION, (D) IT IS
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CONTRARY TO BANKING PRINCIPLES TO CHARGE HIGHER RATE TO

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TWO OF ITS SOUNDEST BORROWERS, (E) IT MILITATES AGAINST STRENGTHENING BANK'S LOAN PORTFOLIO, (F) IT IS NOT IMPOSED BY ANY OTHER DEVELOPMENT FINANCE INSTITUION, (G) IT OFFENDS NEEDLESSLY SINGAPORE AND HONG KONG AS BANK PREPARES TO BORROW IN THEIR CAPITAL MARKETS, (H) IT HAS NEGLIGIBLE EFFECT ON BANK INCOME. IN ADDITION, AUSTRALIAN DIRECTOR DOUBTS THAT NEW LENDING RATE WOULD STILL INCLUDE SUBSIDY ELEMENT.

3. ADB PRESIDENT IN PRVIATE CONVERSATION WITH U.S. DIRECTOR THOUGHT THAT IF AUSTRALIAN DIRECTOR MAKES PROPOSAL TO ABOLISH PREMIUM RATE, THERE MIGHT NOT BE ENOUGH SUPPORT TO DEFEAT PROPOSAL. DIRECTORS REPRESENTING COUNTRIES WHO BORROW FROM ASIAN DEVELOPMENT FUND (LAOS AND BANGLADESH) WOULD NOT BE AFFECTED AND MAY NOT VOTE AGAINST PROPOSAL. THAI DIRECTOR WHO REPRESENTS SINGAPORE WOULD FIND IT DIFFICULT TO OPPOSE. OTHER DIRECTORS REPRESENTING COUNTRIES WHO BORROW OC FUNDS (KOREA, PHILIPPINES AND INDONESIA) MAY BE ADVERSELY AFFECTED BUT LOAN AMOUNTS ARE RELATIVELY SMALL AND THEY MAY FEEL IT MAY NOT ON BALANCE BE APPROPRIATE FOR THEM TO VOE AGAINST PROPOSAL SINCE AUSTRALIAN DIRECTOR COULD BE CRITICAL OF ADB LOANS TO THEM. UK DIRECTOR BELIEVES HONG KONG AND SINGAPORE SHOULD BE DISCOURAGED FROM BORROWING SCARCE ADB CAPITAL BUT MAY NOT BE IN POSITION TO OFFER OUTRIGHT OPPOSITION. JAPANESE DIRECTOR MAY NOT WISH TO BECOME INVOLVED. THIS LEAVES DIRECTORS FROM FRANCE AND CANADA AND GERMAN ALTERNATE WHO MIGHT BE IN POSITION TO OPPOSE PROPOSAL BY AUSTRALIAN DIRECTOR.

4. U.S. DIRECTOR IN CONVERSATIONS WITH AUSTRALIAN DIRECTOR INDICATED U.S. POSITION IS TO MAINTAIN PREMIUM ON INTEREST RATE OF LOANS TO HONG KONG AND SINGAPORE DUE TO HIGH INCOME AND NEED TO ALLOCATE SCARCE ADB FUNDS TO POORER DEVELOPING COUNTRIES. U.S. DIRECTOR ALSO POINTED OUT THAT U.S. WOULD LIKELY BE OPPOSED TO ANY FURTHER LOANS TO HONG KONG AND SINGAPORE IF PREMIUM WERE TO BE ABOLISHED.

5. U.S. DIRECTOR BELIEVES THAT IT WOULD BE DIFFICULT TO REVERSE AUSTRALIAN DIRECTOR'S INTENTION TO PROPOSE ELIMINA-
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TION OF HIGHER INTEREST RATE ON LOANS TO HONG KONG AND SINGAPORE. U.S. DIRECTOR SUGGESTS THAT IF U.S. POSITION IS TO MAINTAIN PREMIUM, AUSTRALIAN GOVERNOR WOULD NEED TO BE PERSUADED TO INSTRUCT AUSTRALIAN DIRECTOR TO ACCEPT COMPROMISE IN ADB DOC. WHICH REDUCES PREMIUM FROM 75 BASIS POINTS TO 60 POINTS. FYI: NEW AUSTRALIAN DIRECTOR ARRIVED OVER MONTH AGO AND COULD BE EXCEEDING HIS INSTRUCTION FROM AUSTRALIAN GOVERNMENT.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, DEVELOPMENT BANKS, LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 JUL 1976
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Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
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Disposition Reason:
Disposition Remarks:
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Document Unique ID: 00
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Enclosure: n/a
Executive Order: N/A
Errors: N/A
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Handling Restrictions: n/a
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Legacy Key: link1976/newtext/t19760741/aaaabjuj.tel
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TAGS: EAID, EFIN, RP, AS, HK, SN, ADB
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